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SUBJECT: SCENESETTER FOR SECRETARY LEAVITT'S RETURN VISIT TO
COSTA RICA

¶1. (SBU) SUMMARY: Embassy San Jose warmly welcomes Secretary Leavitt and his delegation. Since the Secretary's March 2007 visit, the Arias administration has made progress on key elements of its 2006-2010 agenda, most notably completing requirements to join the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA) on January 1, 2009. The GOCR should now be freer to address other priorities, such as rising domestic security problems and decrepit national infrastructure, including in the education and health care systems, but President Arias and his team still face many challenges. On bilateral relations, the U.S. and Costa Rica continue to cooperate closely on environmental, science & technology, and health matters. The GOCR, including the Ministry of Health and the Social Security System, has also overcome enough of its "allergy" to U.S. military assistance to resume highly successful medical readiness exercises after a three-year hiatus. Like Costa Ricans in general, the government hopes the new U.S. administration will bring more understanding, positive attention and perhaps assistance to Latin America. The Ministry of Health appreciates HHS' continued engagement in the region and appears well-disposed to signing the proposed Memorandum of Understanding (MOU) on Food & Product Safety, although final approval is not likely before January 5. END SUMMARY.

THE CAFTA SAGA: OVER, AT LAST

¶2. (U) Ratification and implementation of CAFTA has been the Arias administration's toughest political challenge (and biggest victory) to date, pushing aside most of Arias' other initiatives during its protracted and difficult approval process. In October 2007, CAFTA was narrowly ratified in the country's first-ever national referendum (52% yes, 49% no). The national legislature then wrestled for over a year within its diffuse structure (seven parties and three independents) and with its complex, arcane rules and procedures to enact 13 implementing bills, with the 14th to be approved in 2009.

¶3. (U) After two extensions granted by its CAFTA partners, Costa Rica will enter into force on January 1, 2009, 10 months after the original March 1, 2008 deadline and as the last CAFTA member to join. The major political opposition leader and anti-CAFTA advocate has not given up, however. He is leading a regional campaign to "renegotiate" CAFTA with the new U.S. administration.

BUT CHALLENGES REMAIN

¶4. (SBU) Now that CAFTA is completed, the Arias administration can turn to other priorities such as improving domestic security and law enforcement, beginning to rebuild national infrastructure, starting repairs on the broken education and health care systems, and improving the business climate. With less than two years remaining

in his administration; considerable political capital already expended in the bruising CAFTA fight; controversies swirling in 2008 about the use of Taiwanese aid, the terms of a subsequent bond deal with China and other issues; and maneuvering underway for the 2010 elections, Arias may find it increasingly difficult to complete the rest of his agenda, however.

¶15. (U) Coupled with the financial crisis, these events have generated up and down polling results for Arias and his team. Early 2008 surveys gave him the highest ratings of any administration at the same point in its term, but by the October CID-Gallup poll, this rating had slipped to 44%, with a majority of those surveyed critical of the government's efforts to fight crime and deal with the economic crisis, and pessimistic about the country's near-term future.

STILL A STUDY IN CONTRASTS

¶16. (U) Since the Secretary's 2007 visit, the Arias administration's policy goals have remained consistent with the four pillars of USG policy in the hemisphere: prosperity, security, opportunity, and democracy. In addition, the link between stable democracy and economic opportunity for the average citizen continues to make Costa Rica an example for the region. However, the country has remained a study in contrasts.

¶17. (U) Costa Rica's historical investment in education and health care rather than in national defense, coupled with economic policies that have generally favored free enterprise and globalization, have helped create a lower level of poverty (approximately 16% in 2007) than the norm for Latin America. Costa Rica still has the most prosperous economy in Central America, with a gross domestic product per capita of \$5904 (compared to \$3050 for the region), but Panama is almost at the same level and regional leaders Chile and Mexico are some distance ahead.

¶18. (U) On the other hand, the World Bank's 2009 "Doing Business" index ranks Costa Rica 117th out of 181 countries overall (down from 99th in 2006), 123rd for ease of starting a business, 164th for protecting investors, and 152nd for paying taxes. In general, Costa Rica's cumbersome and hyper-legalistic bureaucracy impedes business development and investment.

¶19. (U) Only 37% of students that begin school in the public system graduate from high school. Highway accidents on the nation's decrepit road system are a leading cause of violent death (only 24% of the national road system is classified as in "good" condition).

¶110. (U) Costa Rica's good reputation for environmental performance on "green" issues (e.g., forest conservation) has not been matched on "blue" issues, such as water and marine resource management, or with "brown" issues, such as sanitation and solid waste management. Only about 3 percent of Costa Rica's wastewater is treated adequately before it is dumped into rivers and oceans. Owing to high levels of fecal coliform near certain resort hotels on Costa Rica's Pacific Coast, Health Minister Avila forced several to close temporarily in late 2007 (some for several months), forcing them to install wastewater treatment systems.

¶111. (U) Costa Rica may not be highly dangerous, but it is no longer safe. Crime has been steadily increasing in recent years, becoming a major concern (along with the state of the economy) as measured in opinion polls. Crime rates are lower in Costa Rica (homicide of 8/100,000) than elsewhere in the region (36/100,000), but higher than in the US (5/100,000), and rising at double-digit rates 2004-2007.

¶112. (U) The judicial system is broken. In 1995, there were 143 robbery events per 100,000 with a 25% national conviction rate. By 2007, there were 887 robberies per 100,000 with a 2% conviction rate. On average from 1997-2007, only 10% of all court cases were resolved at all. Over the last three years, Embassy San Jose has annually replaced more stolen passports than any other U.S. diplomatic mission around the world. This is an indication of the rising theft problem, especially in tourist areas and the

well-populated central valley around San Jose.

THE ECONOMY: ALL RIGHT FOR NOW, BUT IN 2009?

¶13. (U) The Costa Rican economy continues to grow, but has slowed due to the world fuel price and financial crises. Real GDP growth for 2008 should be approximately 4.0%, down from 8.8% in 2007. Unemployment remains less than 5.0%, but inflation may reach 16%, well above the 9.4% rate in 2006. Exports continue to drive growth, with traditional agricultural products (primarily coffee, pineapple, sugar cane and bananas) doing fairly well. Value added goods and services are also doing well, including microchips from Intel (which generates 20% of Costa Rica's export earnings alone), and regional back-office operations by Western Union, Proctor and Gamble and HP. Costa Rica attracted the second largest amount of FDI in the Caribbean basin region in 2007, after Mexico: \$1.8 million (per UN statistics). The U.S. is Costa Rica's largest trading partner; two-way trade totaled \$8.5 billion in 2007.

¶14. (U) However, even with CAFTA entering into force, the government and private sector worry about the impact of the U.S. and global financial crisis, especially on the tourism sector (still a major earnings generator and job creator), the real estate industry (which depends heavily on U.S. and Canadian investors and retirees), and the related construction industry. All three have begun to turn down. Increased trade ties (eventually) may help Costa Rica ride out the crisis. In addition to CAFTA, the Arias administration is involved in trade/association negotiations with the EU, plans to begin trade negotiations with China in 2009, and is a member of the regional Pathways to Prosperity group established during the UN General Assembly in September 2008.

SECURITY: DOING A LOT WITH A LITTLE

¶15. (U) Despite limited security resources, Costa Rica continues to be a reliable partner against transnational drug trafficking, seizing 27 metric tons of cocaine, 4.5 tons of processed marijuana and significant quantities of other drugs in 2007. In 2008, Costa Rican security forces interdicted over 17 metric tons of cocaine and

seized assets worth \$2,000,000. Under a bilateral maritime agreement signed in 1999 (the first in the region) U.S.-Costa Rican joint narcotics operations seized 14 metric tons of the total cocaine interdicted in 2007 and 12 metric tons of the total cocaine and \$800,000 of the total assets seized in 2008.

¶16. (SBU) Unfortunately, these record seizures reflect the tremendous narcotics flow through the region. The USG estimates that approximately 60-75 percent of the drug flow from South America to Mexico and the United States runs through Costa Rican territory or national waters. At any one time, traffickers may stockpile as much as 15-20 metric tons of cocaine in Costa Rica for onward shipment north. Illegal migrants, especially from China, are also smuggled via land or sea through Costa Rican territory.

BUT MORE ASSISTANCE IS NEEDED

¶17. (U) Although Costa Rica is economically-developed enough to have "graduated" from most forms of USG assistance, it still needs help. From 2004 to 2007, overall USG assistance to Costa Rica, including regional programs such as CAFTA trade capacity building and a large debt-for-nature swap under the Tropical Forest Conservation Act (see below), fluctuated annually from \$27 million (FY 2004) to \$5.9 million (FY 2007).

¶18. (SBU) In particular, U.S. security assistance is vital to strengthen Costa Rica's ability to fight domestic and regional threats, especially as the nexus between drug trafficking and domestic crime becomes clearer. The Costa Rican coast guard told us that a four-ton maritime seizure of cocaine in July 2008 would not have been possible without new, USG-provided radios and navigation aids. Marking a significant departure from his past attitude, President Arias himself asked the Embassy for help in early 2008, but funding (until the Merida Initiative) has been problematic. With the right assistance and training, Costa Rica can serve as a

regional model for combating drug trafficking, money laundering and violent domestic crime without a military.

¶19. (U) Under the multi-year Merida Initiative, Costa Rica will receive \$4.3 million in security- and law enforcement-related funding in FY08 funds, plus a share of \$14.9 million in regional programs. In FY 2009, Costa Rica should receive another \$9.4 million. For FY 2008, the majority of this assistance will help modernize and refurbish the Costa Rican coast guard, with healthy amounts of assistance also going for the national police, improved border inspection equipment and training, a regional fingerprint system, a regional center for drug crime intelligence, firearms destruction and improved prison management.

GOOD COOPERATION ON ENVIRONMENT, S & T, AND HEALTH

¶20. (SBU) The Ministry of Health appreciates HHS' continued engagement in the region and appears well-disposed to signing the proposed Memorandum of Understanding (MOU) on Food & Product Safety. Vice Minister of Health Ana Cecilia Morice told ESTOFF on December 30 that the revised draft of the MOU appears to reflect prior GOCR comments, but that the Ministry's legal office must render its final approval. However, as GOCR offices remain closed until January 5, we do not expect final GOCR consent for the MOU signing any earlier.

¶21. (U) More broadly, the U.S. and Costa Rica enjoy strong cooperation on environmental, science & technology, and health matters. For example, we executed a September 2007 "debt-for-nature" swap under the Tropical Forest Conservation Act (TFCA) that will channel some \$26 million into the conservation of six Costa Rican forest ecosystems over the next sixteen years. In addition, several USG agencies are providing trade capacity building (TCB) to help Costa Rica and other CAFTA-DR partners better protect the environment. This program provided for \$20 million of regional assistance in 2005, followed by \$40 million per year for labor and environmental TCB from 2006 through 2009. In addition to ongoing exchanges involving U.S. and Costa Rican scientists and non-government organizations, hundreds of National Aeronautics and Space Administration (NASA) scientists have worked with Costa Rica's scientific community to conduct eight airborne research missions based in Costa Rica since 2003.

¶22. (U) Building on the White House's "Partnership for Breast Cancer Awareness and Research of the Americas" initiative announced by Mrs. Bush in July 2007, Post helped forge a public-private partnership in Costa Rica to increase public awareness of breast cancer, a leading cause of death among women in Costa Rica. The Initiative has a local partner institution, a manager, and a trainer who have conducted workshops in three cities. This initiative is an effort to build capacity in the region, and work collectively in the

areas of awareness, research, training, community outreach and, women's empowerment. It involves three countries in Latin America: Costa Rica, Mexico and Brazil.

NEW OPENNESS TO MILITARY ASSISTANCE, INCLUDING MEDICAL

¶23. (U) The Merida assistance will complement FY 2008 DOD- and SOUTHCOM-funded programs providing training to, and constructing facilities for, Costa Rican police and security personnel. In fact, the Arias administration has shown a new (and welcome) receptiveness to U.S. military assistance overall. Since December 2007, U.S. personnel deploying from JTF-Bravo in Honduras have worked with Costa Rican civilian counterparts to provide significant medical and construction help to isolated indigenous communities in the Talamanca area in December 2007 and near the Panama border in September 2008, as well as major disaster relief after heavy flooding near Limon in November 2008. Support from, and participation by, the GOCR Ministry of Health and Social Security System was instrumental to the success of the two Medical Readiness Training Exercises (MEDRETEs), which treated over 1600 patients.

FOREIGN POLICY: THE UN, NEW "FRIENDS" AND OLD RIVALS

¶24. (SBU) Costa Rica was elected as a non-permanent member of the UN Security Council (UNSC) for the 2008-2009 term. The Arias administration is using this position to further its primary

international goals, including conventional disarmament, environmental protection, foreign aid reform (with more assistance directed to middle income countries like Costa Rica), and improved UN operations. Aiming for better ties with other Pacific Rim countries, Costa Rica was the first government in Central America to recognize China (in June 2007). President Hu came to Costa Rica in October 2008, making first-ever visit by a Chinese president to Central America.

125. (SBU) President Arias has been one of the very few Latin American leaders to speak out for self determination in Cuba and to openly worry about loss of democratic institutions in Venezuela. His tone has softened somewhat in 2008, however, with calls for the U.S. to close Guantanamo and to ease the embargo, steps Arias believes will help open the island politically and economically, and measures he hopes the new U.S. administration will consider seriously. With Venezuela, the Arias administration asked to join Petrocaribe in 2008, in a move it defends as "economic pragmatism" given high fuel prices and Venezuela's role as Costa Rica's major supplier (87%) of crude oil.

126. (SBU) Closer to home, Costa Rica-Nicaragua relations remain delicate. The government has been reluctant to criticize President Ortega openly or directly for the highly-suspect results of the November 2008 municipal elections, preferring instead to express concerns in multilateral fora such as the UN and the OAS.

HOPES FOR THE NEW U.S. ADMINISTRATION

127. (SBU) Despite differences on some issues (e.g., Iraq and Guantanamo), Costa Rican-U.S. relations remain very good. Costa Ricans like Americans and America, but they believe recent administrations have given short shrift to relations with Latin America. They hope to see a major shift in policy in the new Obama administration, including more understanding, more (positive) attention and perhaps more assistance from the U.S. government. However, there may be inflated public (and perhaps governmental) expectations about the speed and depth of the "change" the new administration will bring to policy in this region.

CIANCHETTE